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A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies.... Surveys....Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

CONSTRUCTION COSTS BY CITIES

FEW things are so nebulous in theory and so shocking in fact as today's construction costs. For some time we have been working on a method and gathering information to enable us to present our estimate of construction costs in other cities. The presentation, as it appears on pages 228 through 231 of this report, is incomplete. Our goal was to chart construction costs in the 52 cities shown in the spread from 1935 to May 1947. However, the information we have been able to gather is so spotty that we have fallen considerably short of our original intention. We are continuing to add to our basic data and hope to have much more complete information the next time we discuss this topic in our reports.

We have mentioned several times the practice some statisticians have of comparing 1947 prices with those of 1939. This is perfectly legitimate in some cases, but to make this comparison critically and in order to create the impression that today's prices are grossly out of line is to throw dust in the readers' eyes.

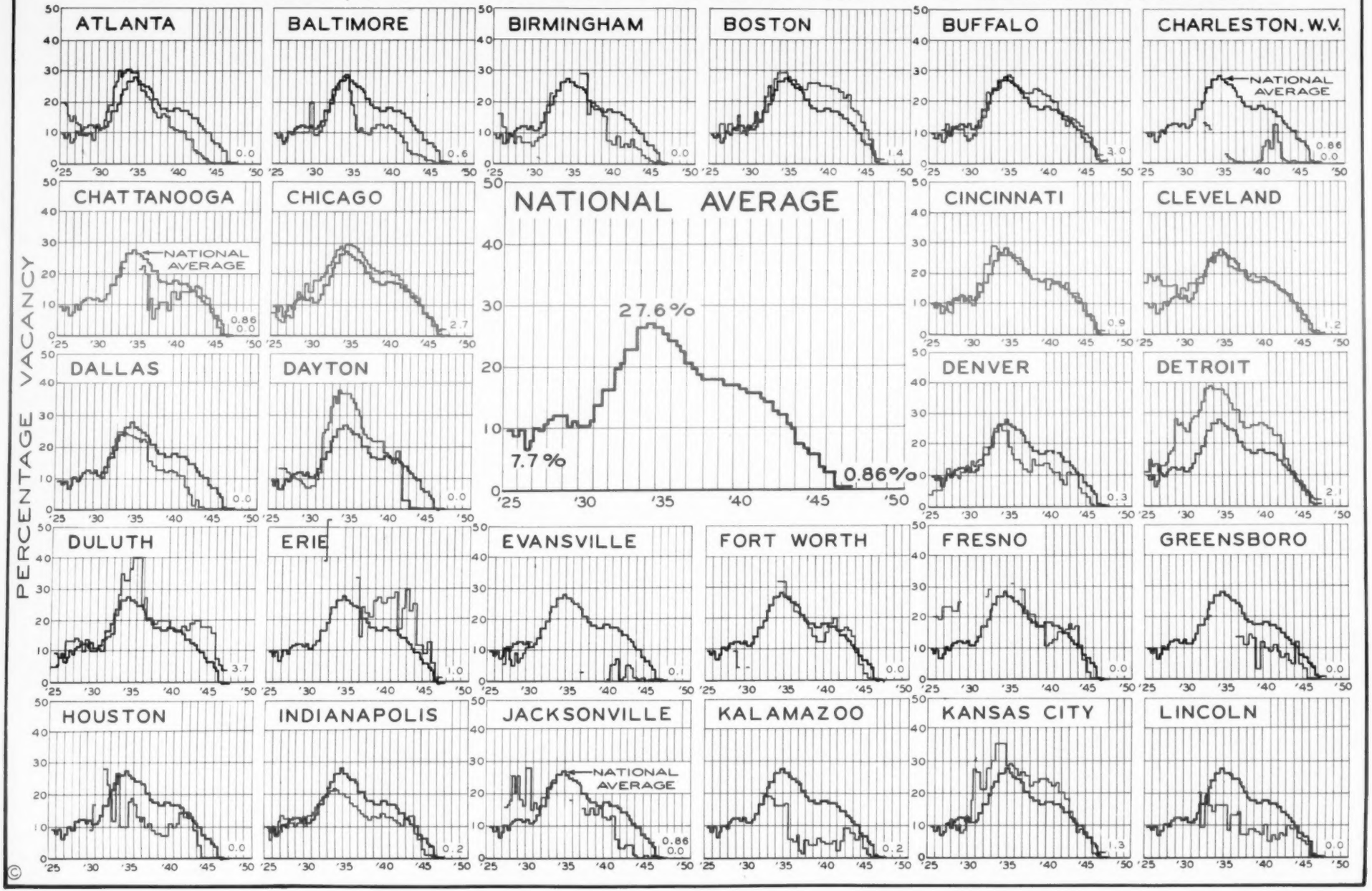
It may also be misleading to compare prices of our era with prices of another when no other factor is considered. For instance, the six-room frame house (with lot) cost approximately $9,200 in 1920 (peak of last postwar boom), whereas the house and lot will cost right at $14,500 today. A more realistic method of comparison is to convert both costs to the number of man hours of labor. This method is used in the following table:

Job Description	Number of Hours Necessary to Buy Standard Six-room Frame House and Lot			Hours Difference Between 1920 and 1947
	1920 - $9,200	1939 - $7,400	Feb. 1947 - $14,500	
Bituminous coal miner	10,800	8,300	9,700	-1,100
Machinist	11,100	9,900	11,400	+300
Sawmill worker	23,000	14,800	15,000	-8,000
Cottonmill worker	19,100	18,000	15,600	-3,500
Boot and shoe worker	16,400	14,500	14,600	-1,800
Printing workers	9,700	7,250	9,000	-700
Bricklayers	7,600	4,925	7,250	-350
Carpenters	8,850	5,925	8,000	-850
Steel workers	12,250	9,625	11,500	-750
Auto workers	14,400	7,950	10,400	-4,000

(cont. on page 227)

OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



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OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

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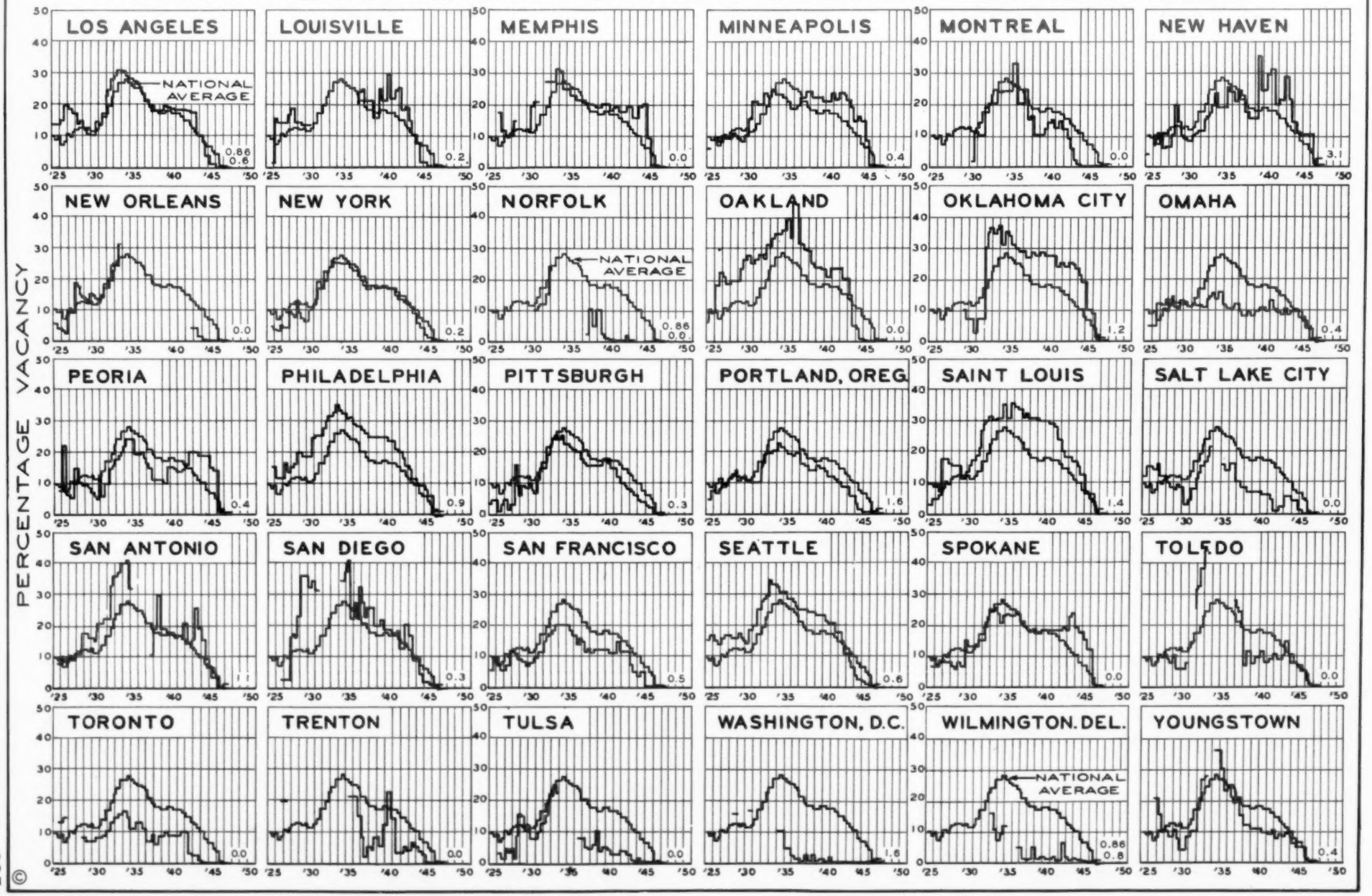

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OFFICE BUILDING VACANCY

FOLLOWING its uninterrupted fall begun in 1934, office building vacancy has risen minutely in the past six months from a low of 0.57% to the present reading of 0.86%. While this rise in vacancy is almost imperceptible, it nevertheless marks the first increase in 13 years.

The vacancy rise does not mean that commercial tenancy is falling off. On the contrary, it is increasing. Strangely enough, this first increase in office building vacancy can be welcomed as a harbinger of glad tidings, for it is the result of the decrease in government agencies. In the fall of 1946, 9 per cent of the office building space in the country was occupied by Federal, State or local government agencies. By May 1947 this figure had shrunk to 7.7 per cent.

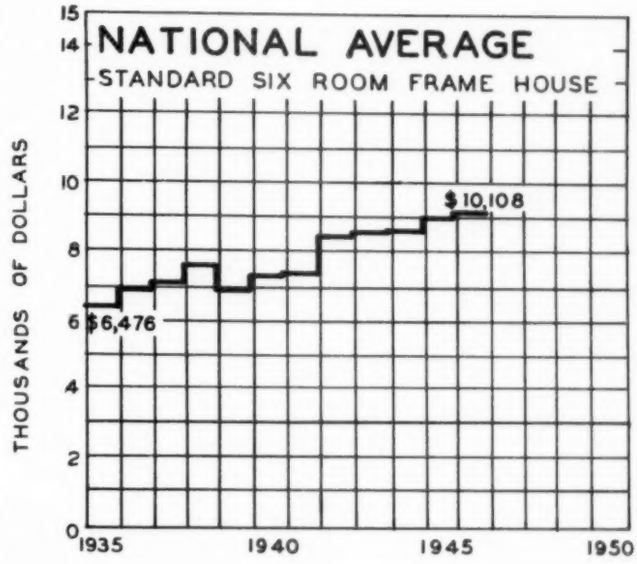
In the individual cities surveyed in the study, the office building vacancy index did nothing more spectacular than wiggle a bit, up in some cities, down in some cities, and sideways in other cities. Twenty cities showed very slight increases in vacancy, nineteen showed very slight decreases in vacancy, and seventeen cities showed no change, just about as evenly balanced as possible.

APARTMENT BOND PRICES RECOVER

THE index of apartment bond prices is influenced to a considerable degree by the rise and fall of other securities. This is evidenced by its slump following last fall's stock market reverse. The index has now risen to 75.8, which is a new high. The future course of apartment bond prices will, to a certain extent, follow the market, but will also be influenced by the rent control bill now before Congress. If this bill passes, and we believe that it will, apartment bond prices should receive another boost from the bill's 15 per cent rent increase provision. If the market rises or remains fairly steady, apartment bonds should also rise. If the market falls, apartment bonds will, in most cases, be cushioned by a 15 per cent rent increase, and will either level off or fall less abruptly than the market.

(cont. from page 223)

Now this train of thought could be carried to the point where one might say that because the sawmill worker saved 8000 hours by not closing the deal on his house until 1947, and that as his average February 1947 wage was 96¢ per hour, the house of today is actually $7,600 cheaper than it was in 1920. The biggest fallacy in this line of reasoning is that wages will not stabilize quite that high, and we will be very much surprised if the hourly wage in sawmills does not start to take some rather drastic drops before the house could be paid for.



However, the table does serve its purpose in pointing out that in terms of wages the house cost most workers less in February 1947 than it did in 1920. In the center column of the table are shown the number of hours necessary to buy the house in 1939. While 1947 shows a much less favorable comparison with 1939 than it does with 1920, nevertheless the comparison between the two postwar price peaks is the one to make and not the comparison between 1947, when prices are at their all-time high, and 1939, when most prices were below normal.

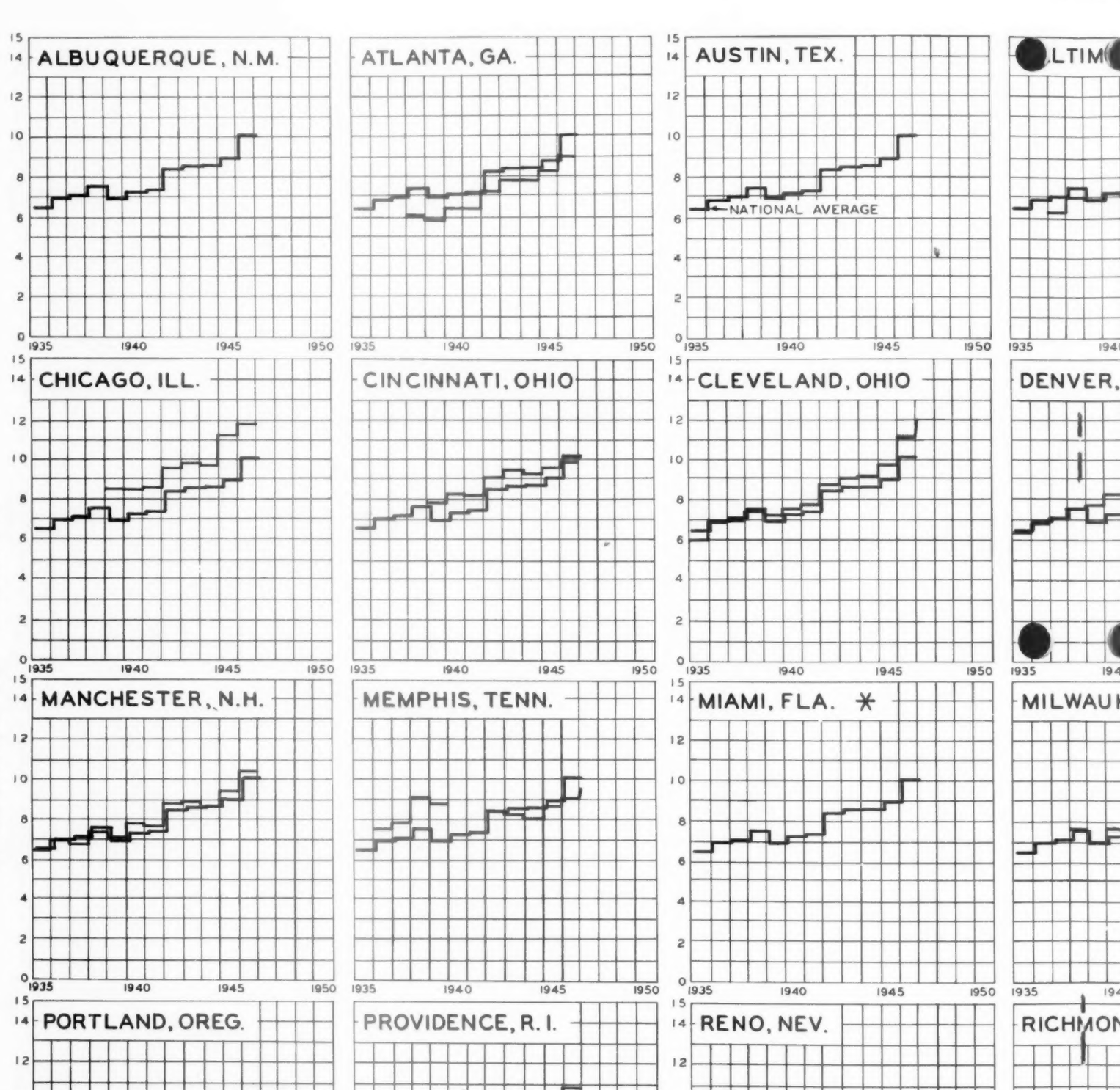
While many groups are most militant in their campaigns for "prewar" prices, we doubt very seriously if they would accept "prewar" wages along with them.

Inasmuch as most houses are paid for over a long period of time during which wages frequently fluctuate, the following comparison may also be significant.

If a worker bought the standard six-room frame house and lot in 1920 for $9,200 and paid it off in 20 years, he would have to expend 16,955 hours during the 20-year period to pay off the $9,200. On the other hand, if the same worker bought the six-room frame house and lot today for $14,500 and pays it off in 20 years, it is estimated that he would have to expend 15,160 hours, or 1,795 hours less.

These comparisons of residential construction costs today with those of 1920 bring together the peak costs of the two postwar periods. They are not made in order to apologize for current high costs or in an attempt to justify a bad situation.

We know that construction costs should and will come down; we also know that inefficiencies, time lag on material deliveries, featherbedding, and just pure cussedness, have caused a great deal of the present high cost. But after all the weeping, wailing and gnashing of teeth over today's high construction costs and heartfelt sighs for the days that "used to was" we feel that somebody should present the facts in a more realistic manner.



* FIGURED WITHOUT BASEMENT NOR CENTRAL HEATING BUT WITH FLOOR

TOTAL CONSTRUCTION COSTS OF A STANDARI

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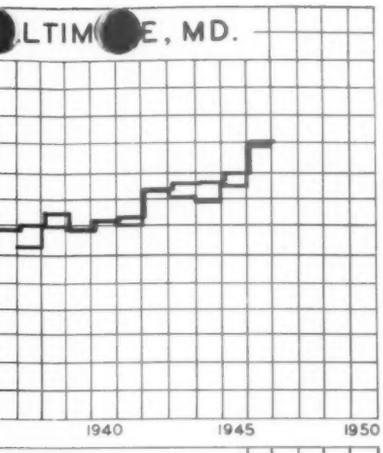
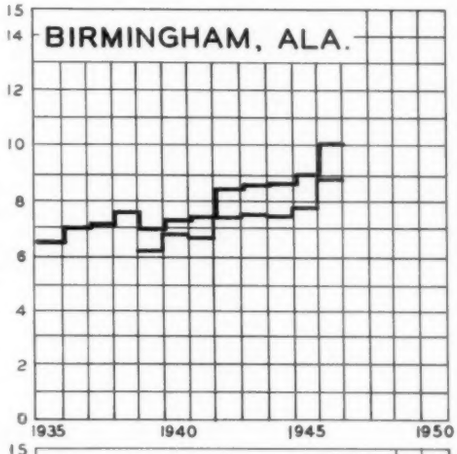
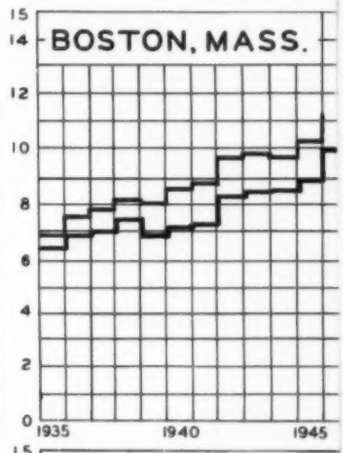
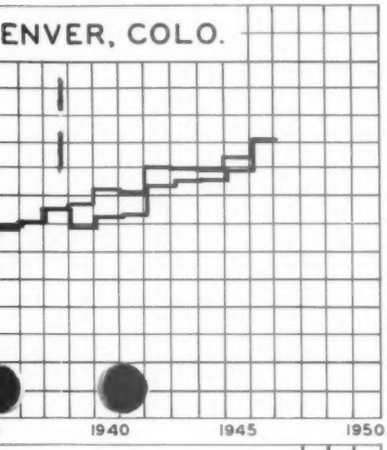
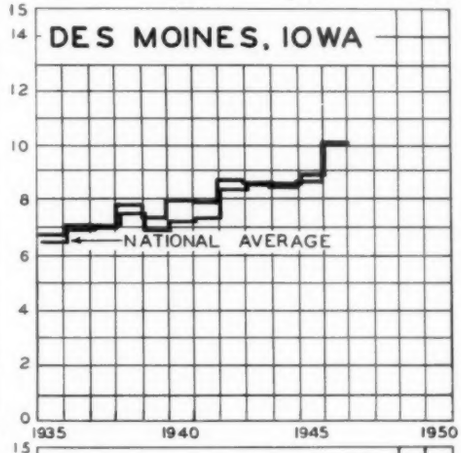
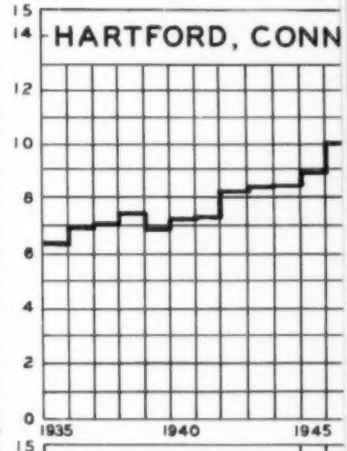


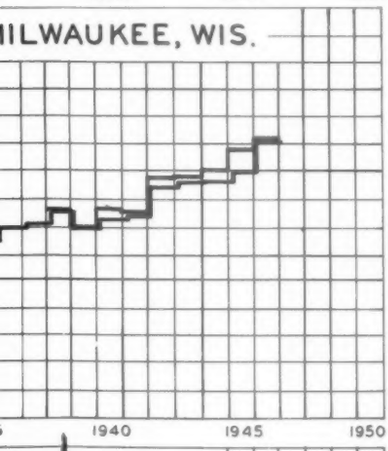


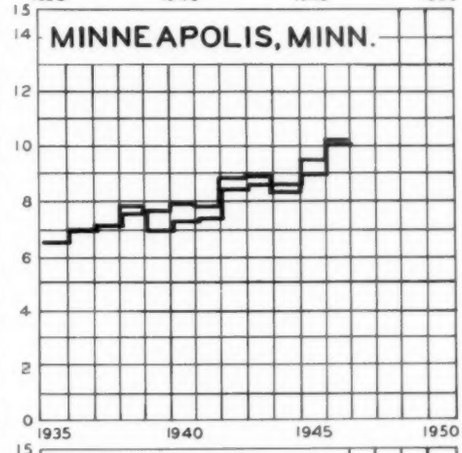


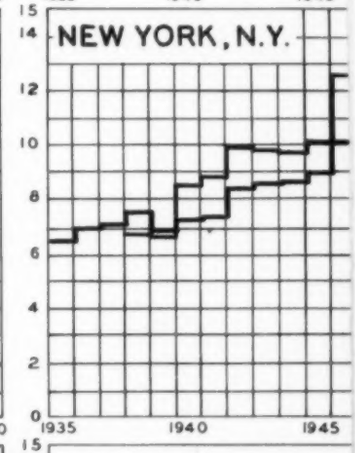


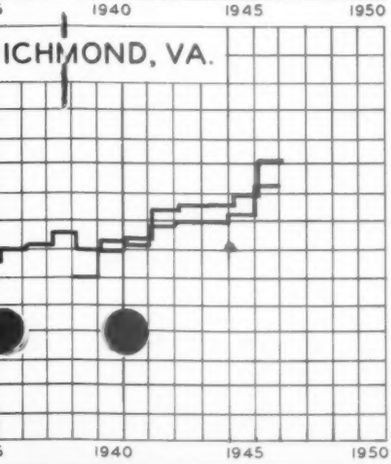


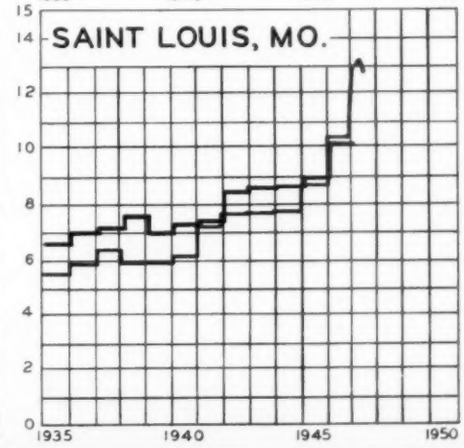


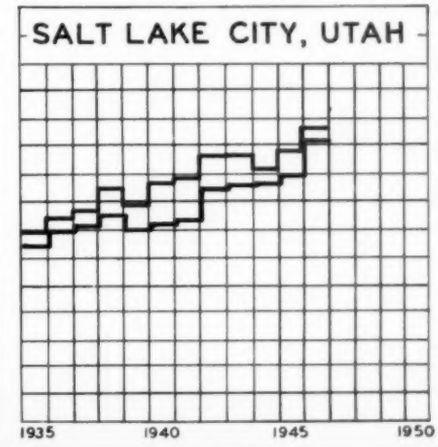


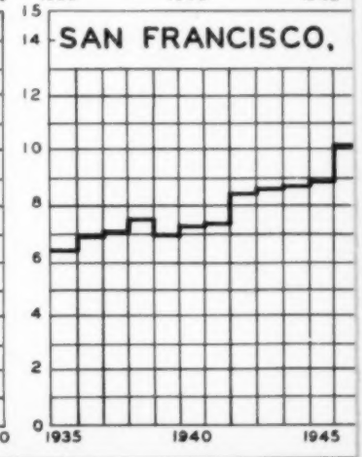






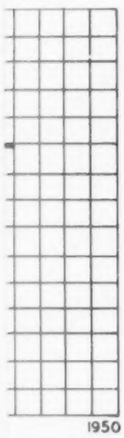


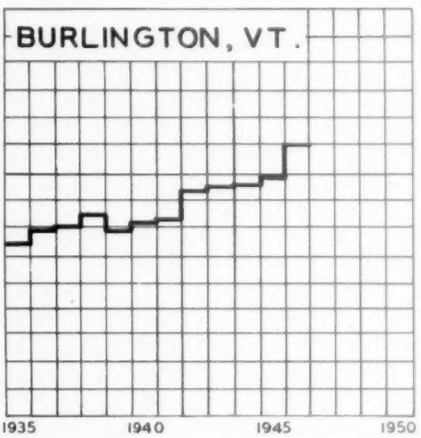


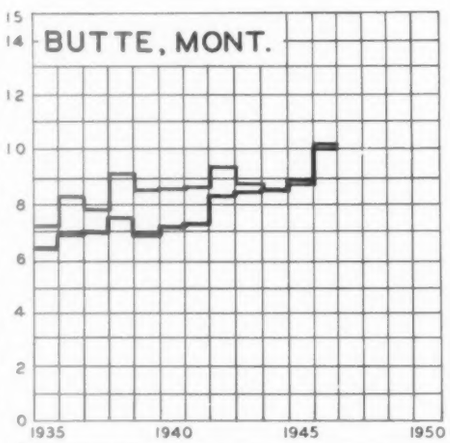


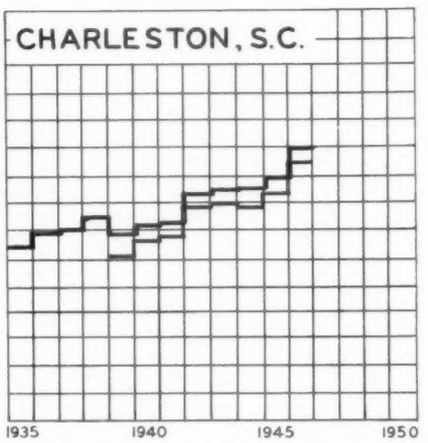
D SIX ROOM FRAME HOUSE BY CITIES

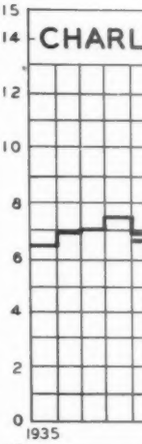
CK & CO. — 1947

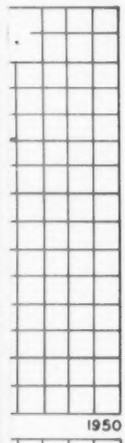


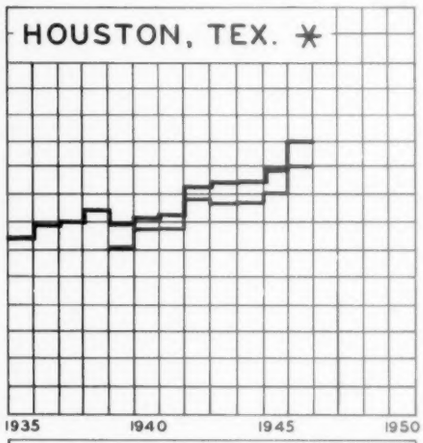


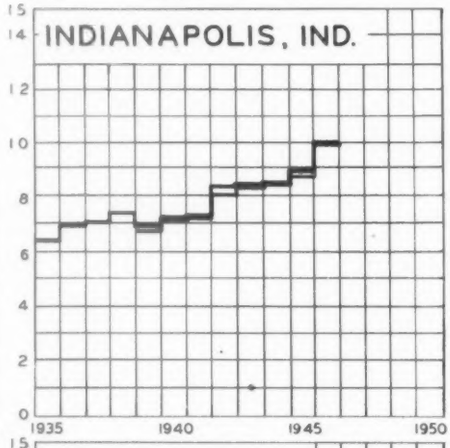


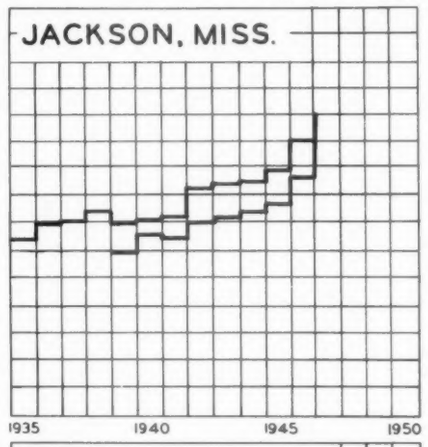


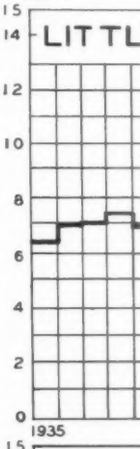


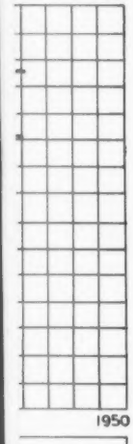


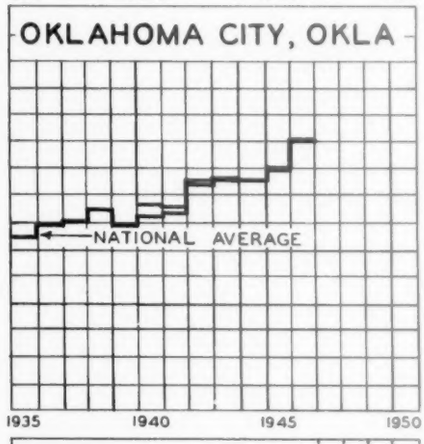


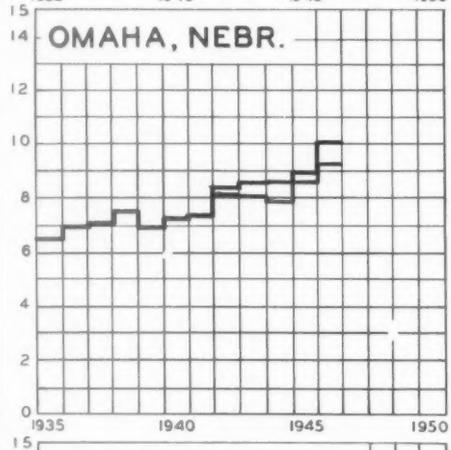


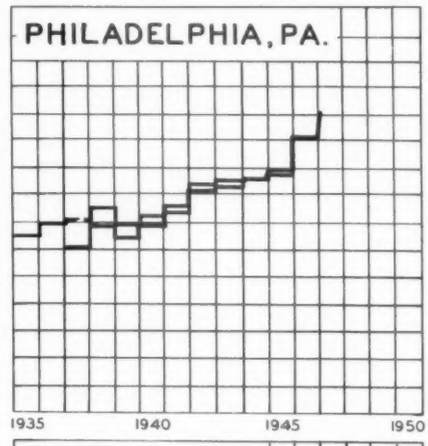


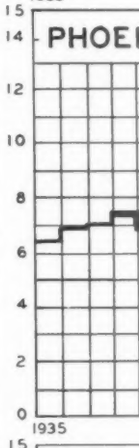


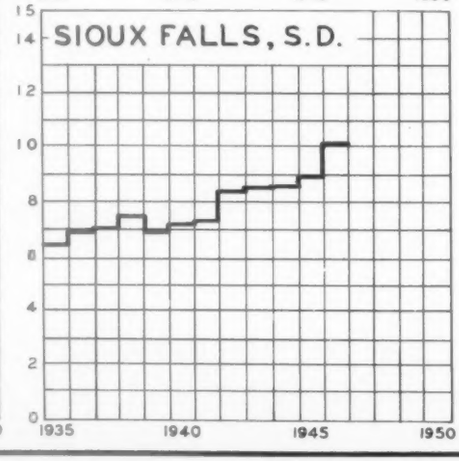


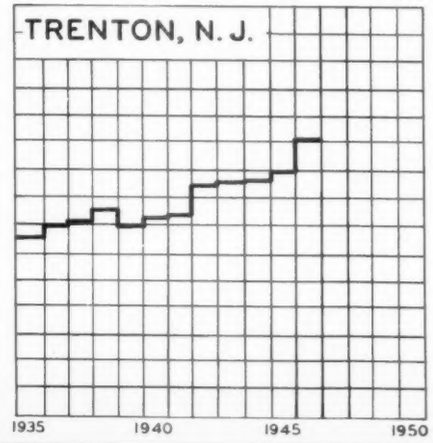


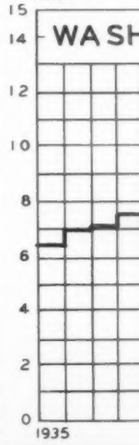


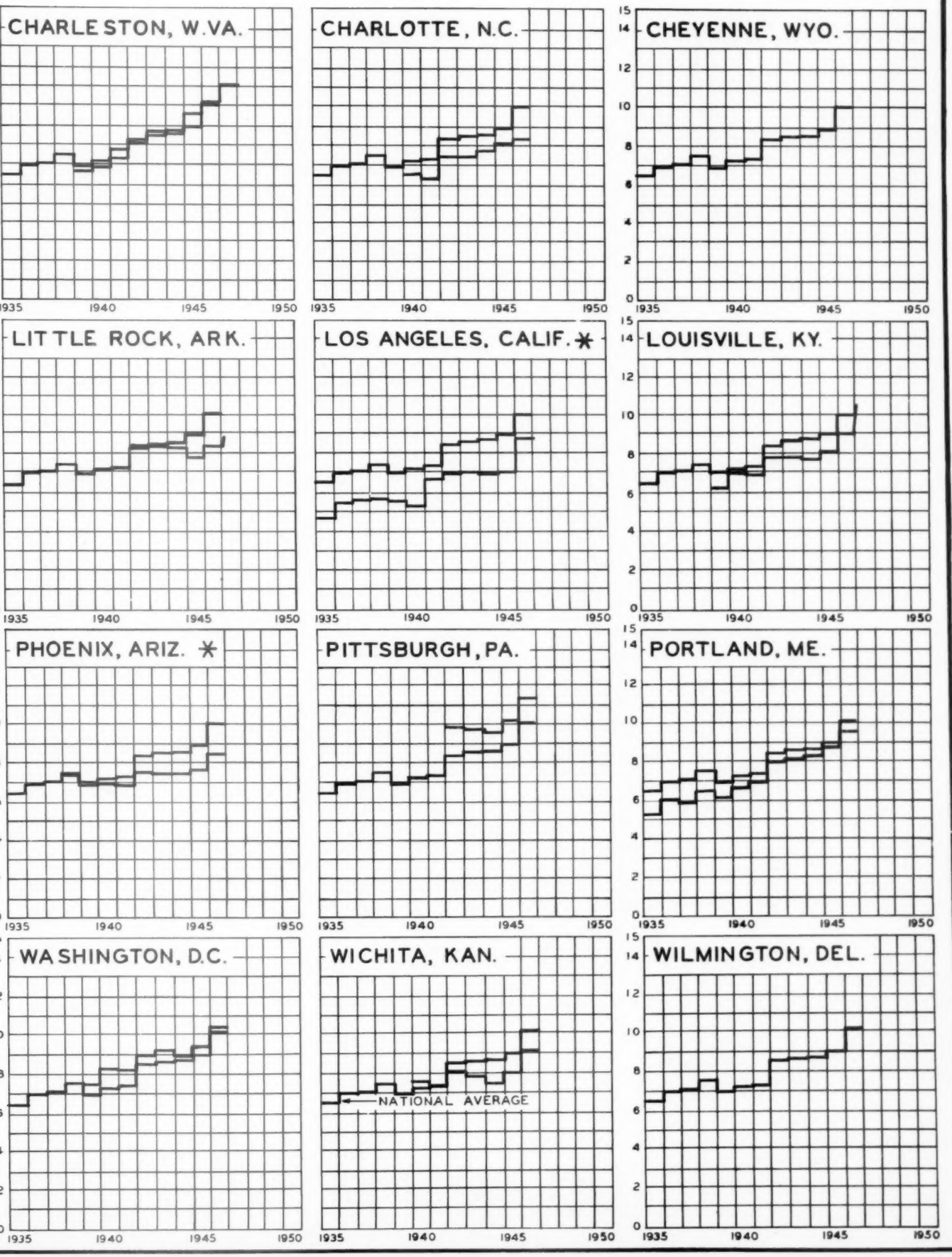








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PHOENIX, ARIZ. *
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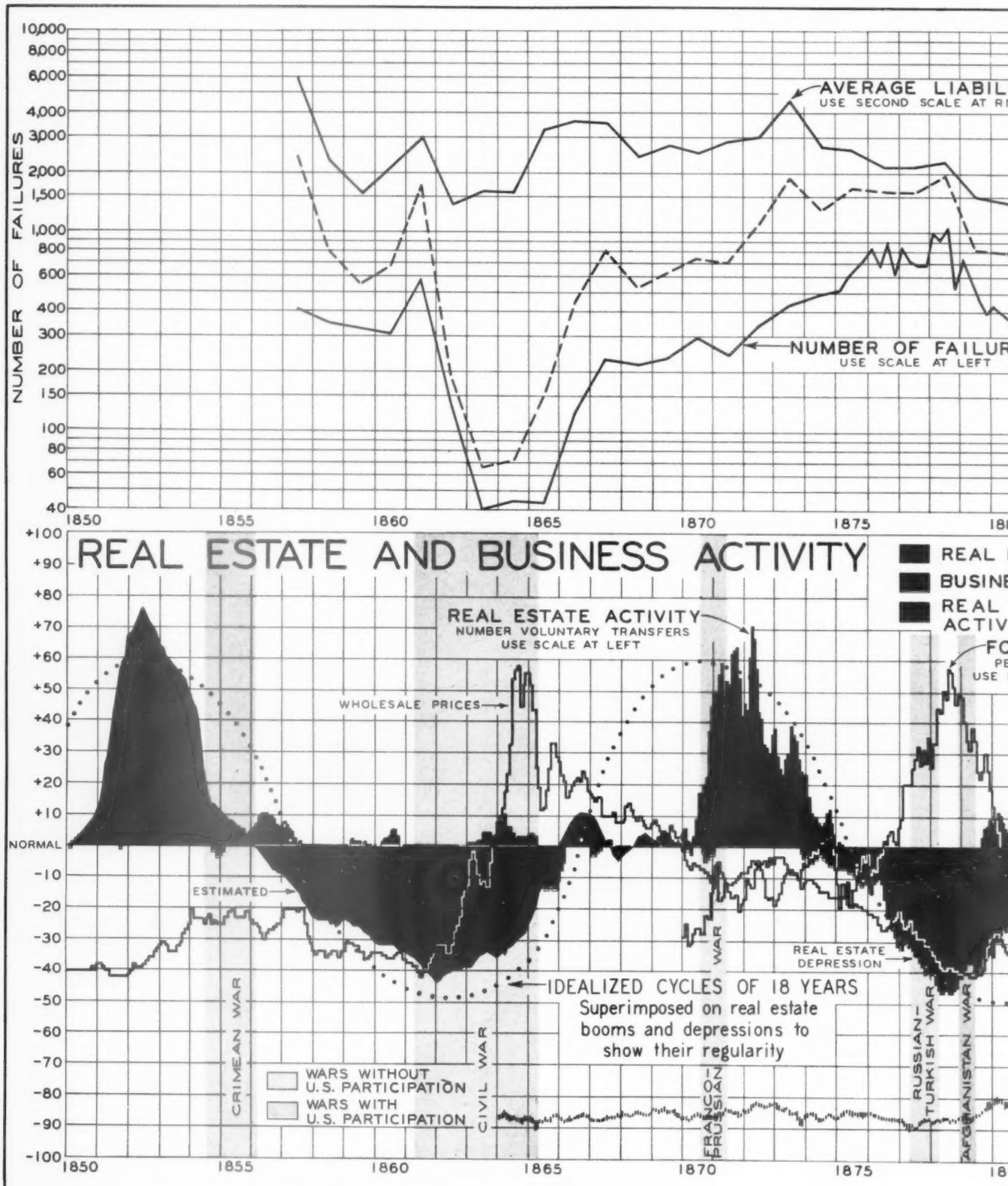
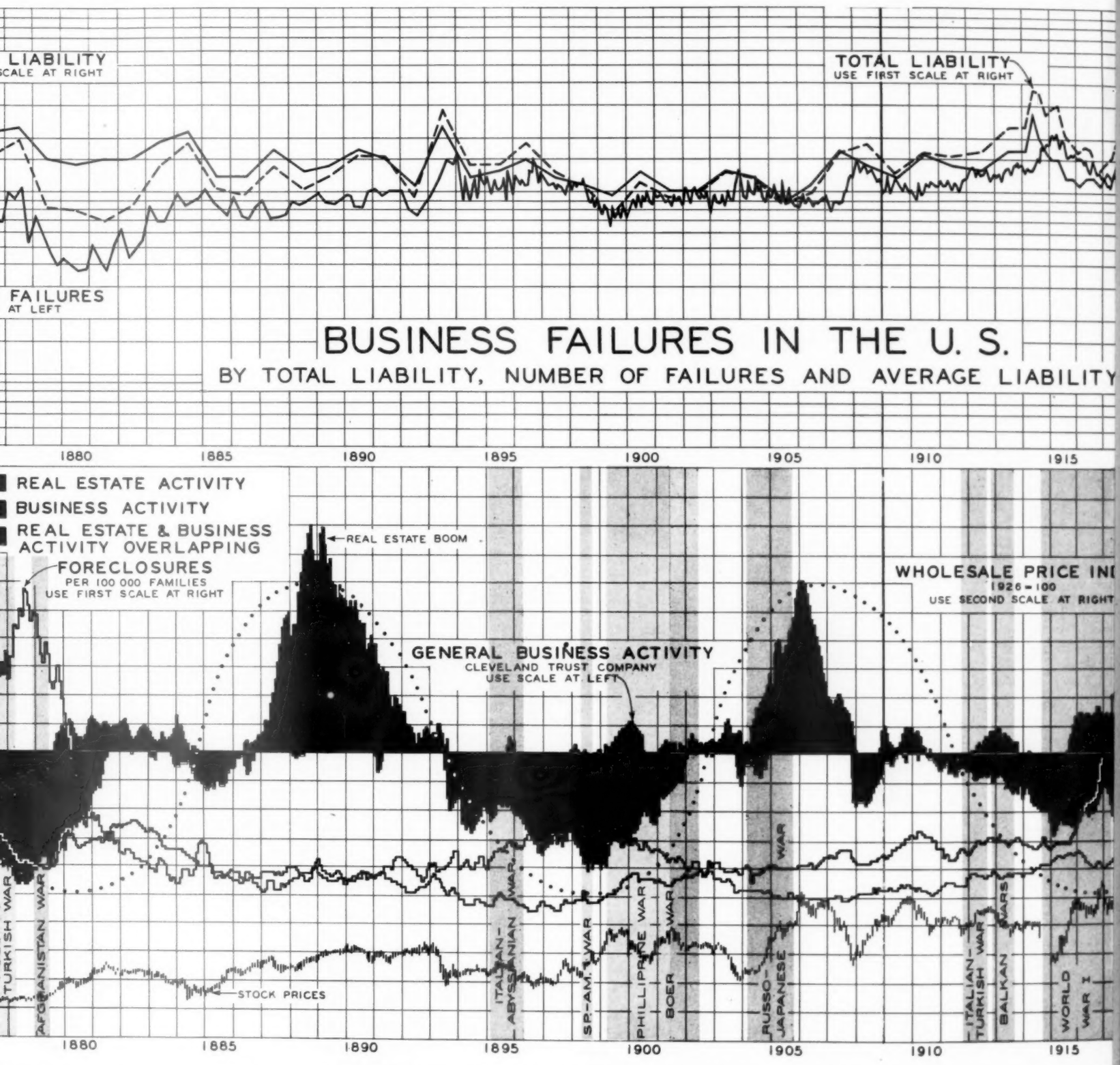


WE can see very little cause for alarm over the sharp increase in business failures since Day. To begin with, 45 per cent of all firms sold or liquidated in the second quarter of were three years old or less. In other words, a large number of the failures have been babies which, for one reason or another, have been unable to survive the rigors of peacetime ope tions. This is what most people expected and is nothing to get excited about. We do not expect a thing resembling a collapse of business soon.

The Department of Commerce reports the following causes of failure in all industries: 1. Lac materials and supplies, 47 per cent; 2. Shortage of competent help, 28 per cent; 3. Increased la



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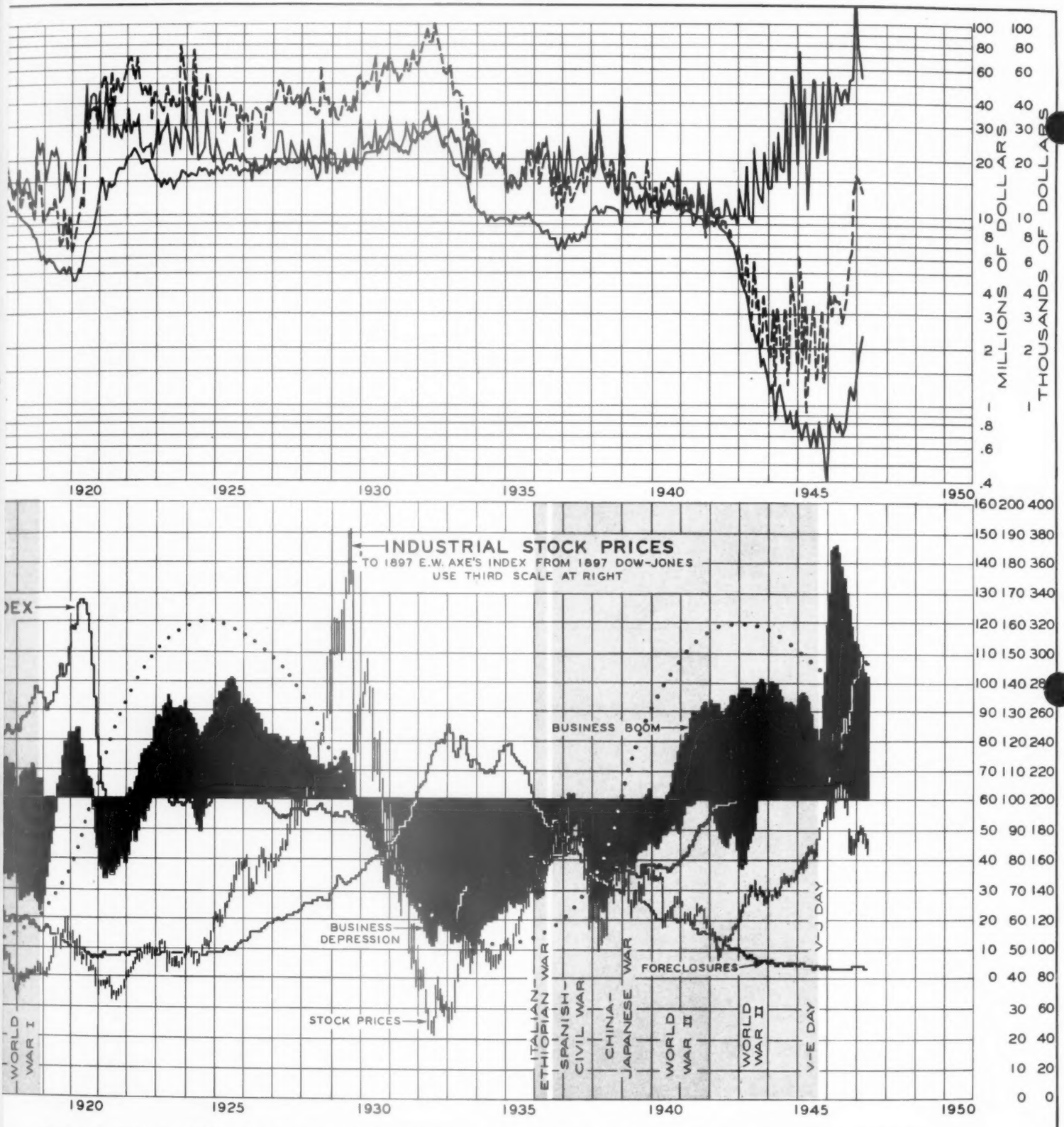
cost, 16 per cent; 4. Lack of customers, 16 per cent; 5. Lack of capital, 12 per cent; 6. Rent increases, 10 per cent; 7. Difficulty in getting equipment or repairs, 8 per cent; 8. Inability to get dealer agencies, 2 per cent; 9. Decline in value of inventories, 2 per cent; and 10. Other causes, 13 per cent. Some firms reported two or more reasons for their discontinuance. Material shortages forced the retirement of 73 per cent of the failures in the durable goods retail trade, and of 74 per cent of the failures in the construction field.

In analyzing this report, we feel that the most frequent cause of recent business failures, scarcity of merchandise and materials, has largely been removed. The same is true, in many cases, of several other



causes, such as difficulty in securing customers and difficulty in getting equipment and repairs.

There will always be a certain number of failures in business. We do feel, however, that most of the war babies and marginal firms which were destined to go as a result of their inability to operate successfully in a peacetime economy have now failed and that from now on insolvencies will result from more fundamental reasons, such as poor management, poor location, decline in inventory values, etc.

A study by Dun & Bradstreet of failure trends from 1915 to 1923 and from 1938 to 1947 reveals that during the more recent period, far fewer failures have taken place than during 1915 to 1923.

During 1915 to 1923 there was a yearly average of 86 failures for every 1000 firms. From 1938 through 1946 average failures each year were 36 per 1000 firms. The figures for the latter period, however, do not include failures of real estate, insurance, holding and financial companies, travel agencies, steamship lines, etc.

Computed from a further breakdown of this study are the approximate failure rates in five manufacturing groups for the same two periods:

AVERAGE FAILURES PER YEAR PER THOUSAND BUSINESSES

	1915 - 1923	1938 - 1946
Textiles, apparel and leather	37	13
Lumber and lumber products	13	4
Chemicals and chemical products	13	9
Stone, glass and clay	14	6
Iron and steel, machinery and transportation equipment	20	9

In four lines of distribution, wholesale and retail trade combined, approximate failures were:

AVERAGE FAILURES PER YEAR PER THOUSAND BUSINESSES

	1915 - 1923	1938 - 1946
Food	7	3
Apparel	21	9
Furniture	7	6.7
Hardware	8	3

During the first quarter of 1947 there have been 694 failures, with an average liability of $62,565. This is a little more than double the 1946 failure rate, but shows only a slight increase over 1946's average liability of $62,256.

So far we have not had the inevitable price readjustment following World War II. This is the main reason that failures are so much lower during this period than during the nine years from 1915 to 1923, which saw the rapid price decline of 1920 wipe out many firms through inventory losses alone. A price readjustment will come (in some fields it has already begun) and our recommendations to anyone buying anything are to keep inventories low.

Of the five manufacturing groups reported, iron and steel, machinery and transportation equipment had the highest number of failures for the first quarter of 1947 - 84 failures, with an average liability of $173,810.

The chart of business failures and liabilities on pages 232 through 234 shows that from mid-1932 through 1945 the trend has been steadily and drastically downward. The beginning of this downward trend found most unstable enterprises forced out by the cataclysmic events following the 1929 crash. Since reaching bottom in 1932, business activity has for the most part been rising, and as activity rose, failures declined. During the war years and their accompanying prosperity, business failures dropped even more rapidly, until they reached the lowest point since the Civil War.

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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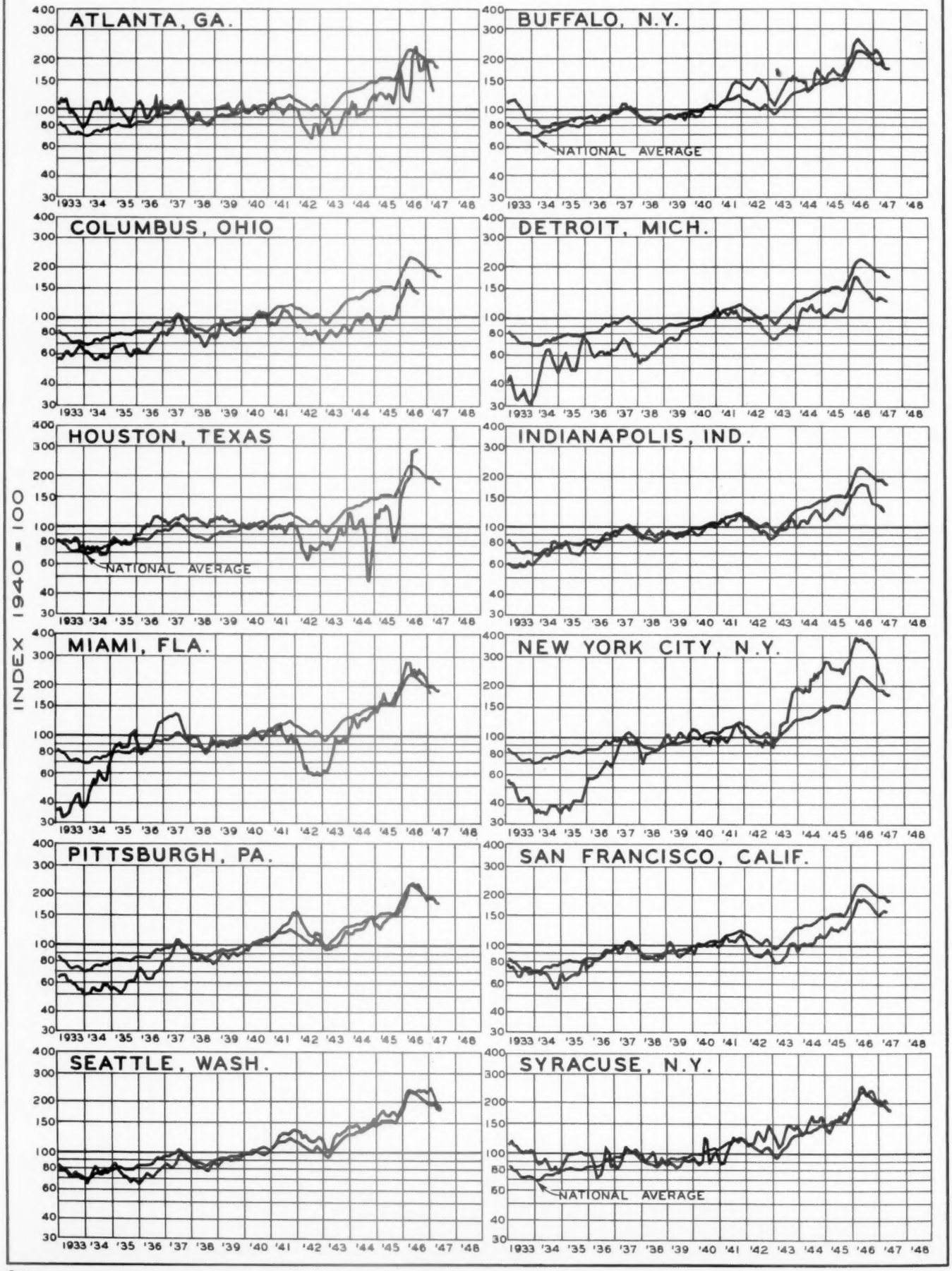

REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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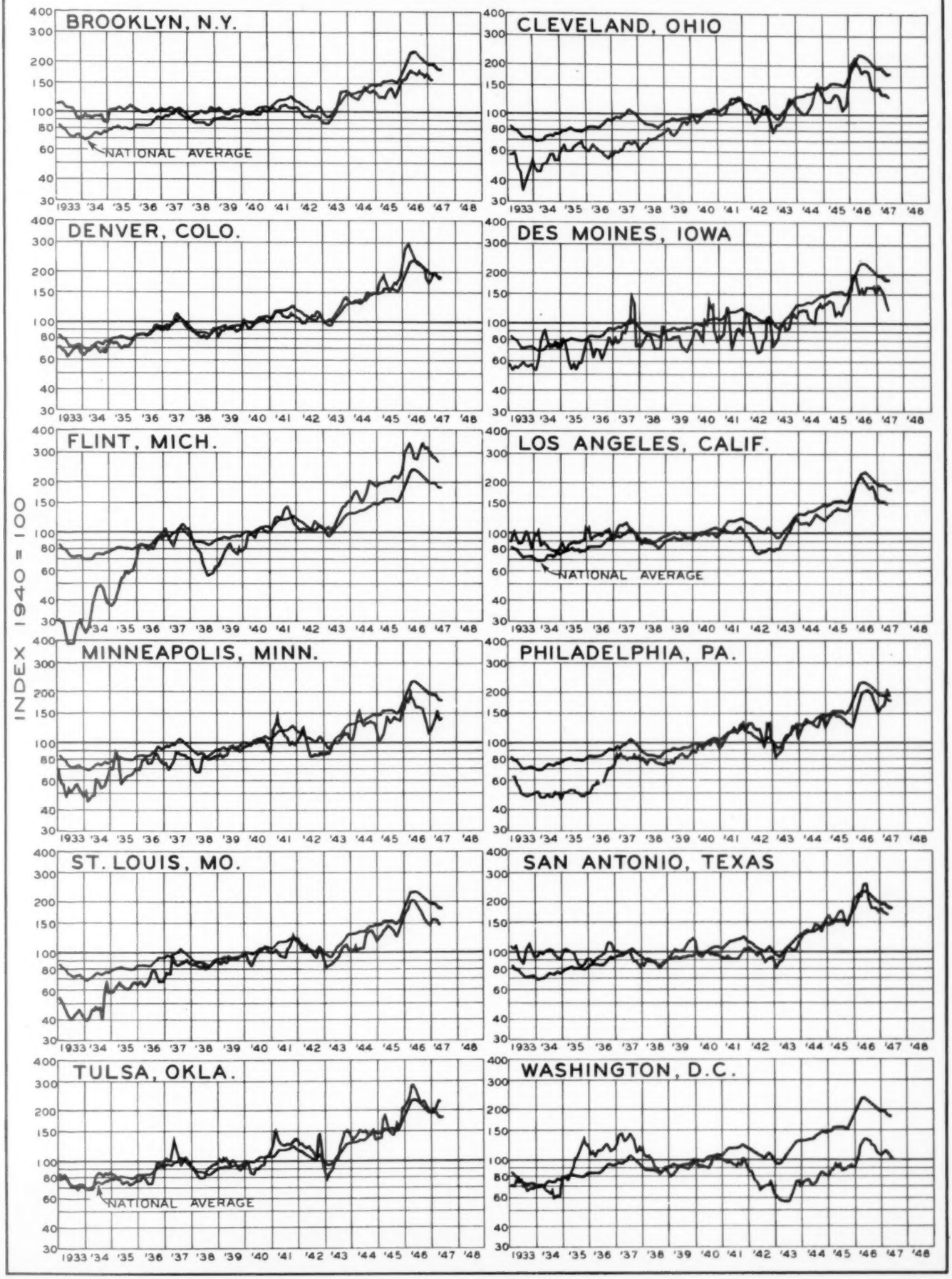

ESTIMATED NUMBER OF NEW NONFARM DWELLING UNITS STARTED

1900 - 240,000	1907 - 440,000	1914 - 445,000	1921 - 449,000	1928 - 753,000	1935 - 221,000	1942 - 496,600
1901 - 340,000	1908 - 440,000	1915 - 475,000	1922 - 716,000	1929 - 509,000	1936 - 319,000	1943 - 350,000
1902 - 360,000	1909 - 580,000	1916 - 480,000	1923 - 871,000	1930 - 330,000	1937 - 336,000	1944 - 169,000
1903 - 400,000	1910 - 475,000	1917 - 230,000	1924 - 893,000	1931 - 254,000	1938 - 406,000	1945 - 225,000
1904 - 440,000	1911 - 480,000	1918 - 120,000	1925 - 937,000	1932 - 134,000	1939 - 515,000	1946* - 670,500
1905 - 480,000	1912 - 490,000	1919 - 330,000	1926 - 849,000	1933 - 93,000	1940 - 602,500	
1906 - 480,000	1913 - 455,000	1920 - 247,000	1927 - 810,000	1934 - 126,000	1941 - 715,200	

MONTHLY FIGURES

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1939	32,300	30,700	42,900	42,900	53,300	45,900	44,200	51,200	42,400	42,900	45,100	41,200
1940	25,700	36,900	46,000	62,900	57,000	44,100	57,600	55,800	58,400	66,200	44,900	47,000
1941	41,200	43,700	60,200	75,200	70,700	77,200	74,600	69,800	67,000	56,200	46,600	32,800
1942	34,500	51,300	52,700	59,700	60,600	46,300	26,700	27,500	40,400	32,200	30,400	34,300
1943	45,000	40,100	33,000	26,700	33,600	21,800	24,200	27,600	24,300	28,100	26,100	19,500
1944	17,300	13,500	18,100	14,300	16,500	17,500	14,500	12,800	11,300	10,800	11,600	10,800
1945	7,600	8,400	12,300	18,300	16,900	20,300	20,100	17,100	17,900	25,400	30,500	30,200
1946*	37,500	42,400	62,000	67,000	67,100	64,100	62,600	65,400	57,600	57,800	47,700	39,300
1947*	40,100	44,100	58,400	68,700	69,000							

CUMULATIVE FIGURES

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1939	32,300	63,000	105,900	148,800	202,100	248,000	292,200	343,400	385,800	428,700	473,800	515,000
1940	25,700	62,600	108,600	171,500	228,500	272,600	330,200	386,000	444,400	510,600	555,500	602,500
1941	41,200	84,900	145,100	220,300	291,000	368,200	442,800	512,600	579,600	635,800	682,400	715,200
1942	34,500	85,800	138,500	198,200	258,800	305,100	331,800	359,300	399,700	431,900	462,300	496,600
1943	45,000	85,100	118,100	144,800	178,400	200,200	224,400	252,000	276,300	304,400	330,500	350,000
1944	17,300	30,800	48,900	63,200	79,700	97,200	111,700	124,500	135,800	146,600	158,200	169,000
1945	7,600	16,000	28,300	46,600	63,500	83,800	103,900	121,000	138,900	164,300	194,800	225,000
1946*	37,500	79,900	141,900	208,900	276,000	340,100	402,700	468,100	525,700	583,500	631,200	670,500
1947*	40,100	84,200	142,600	211,300	280,300							

12-MONTH MOVING TOTALS

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1939												515,000
1940	508,400	514,600	517,700	537,700	541,400	539,600	553,000	557,600	573,600	596,900	596,700	602,500
1941	618,000	624,800	639,000	651,300	665,000	698,100	715,100	729,100	737,700	727,700	729,400	715,200
1942	708,500	716,100	708,600	693,100	683,000	652,100	604,200	561,900	535,300	511,300	495,100	496,600
1943	507,100	495,900	476,200	443,200	416,200	391,700	389,200	389,300	373,200	369,100	364,800	350,000
1944	322,300	295,700	288,000	268,400	251,300	247,000	237,300	222,500	209,500	192,200	177,700	169,000
1945	159,300	154,200	148,400	152,400	152,800	155,600	161,200	165,500	172,100	186,700	205,600	225,000
1946*	254,900	288,900	338,600	387,300	437,500	481,300	523,800	572,100	611,800	644,200	661,400	670,500
1947*	673,100	674,800	671,200	672,900	674,800							

ESTIMATED NUMBER OF NEW NONFARM DWELLING UNITS COMPLETED

	NEW PERMANENT UNITS						TEMPORARY RE-USE, CONVERSIONS AND TRAILERS	
	Monthly			Cumulative			Monthly	Cumulative
1946	Conventional	Factory-Built	Total	Conventional	Factory-Built	Total		
Jan. *	14,700	1,200	15,900	14,700	1,200	15,900	6,200	6,200
Feb. *	15,700	1,600	17,300	30,400	2,800	33,200	7,700	13,900
Mar. *	16,500	2,200	18,700	46,900	5,000	51,900	8,600	22,500
Apr. *	18,400	2,600	21,000	65,300	7,600	72,900	9,200	31,700
May *	22,000	3,100	25,100	87,300	10,700	98,000	9,600	41,300
June *	27,200	3,400	30,600	114,500	14,100	128,600	11,700	53,000
July *	32,600	4,100	36,700	147,100	18,200	165,300	13,300	66,300
Aug. *	39,500	3,900	43,400	186,600	22,100	208,700	17,100	83,400
Sept. *	45,900	3,800	49,700	232,500	25,900	258,400	31,300	114,700
Oct. *	50,600	4,900	55,500	283,100	30,800	313,900	30,500	145,200
Nov. *	57,600	3,600	61,200	340,700	34,400	375,100	26,500	171,700
Dec. *	59,900	2,800	62,700	400,600	37,200	437,800	32,200	203,900
1947								
Jan. *	--	--	62,600	--	--	62,600	39,500	39,500
Feb. *	--	--	60,300	--	--	122,900	35,800	75,300
Mar. *	--	--	57,700	--	--	180,600	32,500	107,800
April	--	--	59,500	--	--	240,100	23,800	131,600
May	--	--	59,900	--	--	300,000		

* Figures from October 1945 on have been revised to exclude those dwelling units which were provided by dismantling temporary war structures and their re-erection at new sites.